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C O N F I D E N T I A L SECTION 01 OF 02 MUSCAT 000749

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STATE PASS TO USTR, COMMERCE FOR THOFFMAN

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TAGS: ECON EFIN PREL MU
SUBJECT: OMANI OFFICIALS DISCUSS IMPACT OF GLOBAL CREDIT
CRUNCH

REF: MUSCAT 722

Classified By: Ambassador Gary A. Grappo for Reasons 1.4 (b, d)

¶1. (C) Summary: The Executive President of the Central Bank of Oman (CBO), Hamoud bin Sangour al-Zadjali, told the Ambassador that Oman had no direct exposure to the global financial crisis as its banks had not invested in mortgage-backed securities. While contending that liquidity in local banks was fine, Zadjali acknowledged that Oman nevertheless still faced a major problem in securing external funding for large development projects in the Sultanate. The government was also concerned about the impact of falling oil prices, which could cause Oman to delay or scale back planned infrastructure projects. Zadjali predicted a downturn in the Dubai real estate market due to the global credit crunch and stock market losses, and claimed it would be "impossible" for the GCC to launch a common currency by 2010. Separately, Oman's Minister of National Economy shared that Oman's sovereign wealth fund had recently lost 7% of its value and that he had authorized the government to transfer $2 billion to the CBO to ensure adequate liquidity in local banks. End Summary.

¶2. (C) The Ambassador met on October 22 with Hamoud bin Sangour al-Zadjali to discuss the global credit crisis and its affect on the Omani financial system (reftel). Zadjali said the crisis had been "devastating" to the global economy and commented that the consensus at the recent IMF meeting in Washington, which he attended, regarding the world economic outlook was "very gloomy." Whether the worst of the crisis had passed was unknown, he remarked, although he hoped a clearer picture would emerge by the end of the year. "Every day there is something new; we don't know what will happen next," Zadjali stated.

¶3. (C) Zadjali asserted that no Omani banks had direct exposure to subprime mortgage-backed securities or assets due to Oman's policies limiting banks' activities outside the Sultanate and their investments in foreign equities and financial instruments. "In a way we are immune to the crisis," Zadjali stated, but he quickly added that Oman would "undoubtedly be affected" since the Sultanate was part of the world economic system. The main problem for Oman, he continued, would involve external financing for big development projects -- either securing financing for new projects from foreign financial institutions or acquiring external-source credit to finance the roll over of debt for current projects.

¶4. (C) According to Zadjali, large real estate projects in Oman usually require five or more years for completion, while the financing for these projects normally mature in between one and five years. The global credit squeeze would accordingly make it difficult to cover this "maturity gap," although Zadjali stated that the Central Bank would step in

to provide financing if needed. "Before, Western institutions were lining up to provide credit for development projects," observed Zadjali, "but now they will undoubtedly charge us more -- there is no confidence between banks." While Zadjali wanted to believe claims that global investors would look to the Middle East as a "safe haven" for their money, he conceded that this might be "wishful thinking."

¶5. (C) Given the recent sharp decline in world oil prices and the likelihood of slower economic growth in the Sultanate, Zadjali said that the government would need to be more careful in scrutinizing plans for big infrastructure development. "Some of these projects may have to be delayed," he commented. He added that the government should likewise be "very conservative" in developing its next annual budget, noting that an oil price of between $60 and $65 per barrel was the "break even" price for the current budget. If oil prices dropped below this amount for an extended period of time, the government would run a deficit as a result.

¶6. (C) In contrast to external financing for development projects, Zadjali asserted that liquidity in local banks for consumer loans and other purposes was "fine." In fact, he noted, Omani banks had just bought over $70 million in certificates of deposit issued by the CBO with their "excess cash." While the return on these certificates was low, they were nonetheless very secure and the purchase money could easily be accessed by banks in the future if needed. Zadjali also asserted that depositors were not pulling their money out of Omani banks. He consequently saw no need for the government to inject funds into local financial institutions, but added that "all our tools are ready to help our banks if

necessary." (Note: Zadjali told local press on October 20 that the "core assets" of commercial banks in Oman had increased by 46.5% over the last two years, rising from 8.6 billion Omani rials (RO) in August 2006 to 12.6 RO in August ¶2008. He further stated that the CBO had issued 929 million RO worth of certificates of deposits from January-August 2008, compared to 430.1 million RO in the corresponding period in 2007. End Note.)

¶7. (C) Outside of Oman, Zadjali stated that "some GCC countries" were experiencing "problems" and had even entertained "rescue plans." Regarding Dubai, he said that investors should not expect real estate prices to continue their rapid climb with continued building. "Everything has a limit," he remarked. Development projects in the emirate were "far more than needed," but money from foreign residents and outside investors had kept coming, fueling the boom. A downturn in the Dubai real estate market was coming, he predicted, as reflected by declining prices for some properties and the large drop in share prices for Dubai developers. He said that in response to the global credit crisis, the government of Dubai had moved to guarantee 100% of all local bank deposits to help prevent a large-scale withdrawal of funds, although it later clarified that this only applied to deposits already in banks before the guarantee announcement.

¶8. (C) Agreeing with the Ambassador that now was a good opportunity to invest in the U.S., Zadjali stated that he hoped economic conditions in the U.S. would improve as this would have a positive impact in the rest of the world. "You are the (economic) leader," he declared. Oman was concerned that a protracted recession in the U.S. and Europe could lead to significantly lower oil prices, even if OPEC were to cut production levels. On a closing note, Zadjali commented that he would soon leave for Riyadh to attend a GCC meeting for finance ministers and central bank governors to discuss the global financial crisis. The launch of a proposed GCC common currency by 2010 was "impossible," he opined, although GCC members might be able to establish the necessary central bank by then. (Note: Oman is sticking with its decision to opt out of a common GCC currency. End Note.)

¶9. (C) Separately, the Ambassador spoke with Minister of National Economy Ahmed Abdulnabi Macki on the margins of a dinner in honor of visiting U.S. Trade Representative Susan Schwab on October 26. Macki confirmed much of Zadjali's commentary but allowed that Oman's sovereign wealth fund, the Strategic General Reserve Fund, has suffered a seven percent downturn as a result of the financial crisis, equivalent, he said, to about $400 million. Macki also reported that he had authorized just that week the transfer of $2 billion to the Central Bank of Oman to ensure adequate liquidity.

¶10. (C) Comment: We question Zadjali's reference to Omani banks' recent purchase of $70 million in CBO CDs as a sign of healthy liquidity. In fact, per our banking contacts, liquidity remains a problem that could worsen. Moreover, the Finance Ministry's transfer of $2 billion actually was a direct dollar transfer to locals banks, who then purchased rials. Rial interest rates on non-personal loans -- personal loan rates are capped at eight percent -- have been rising rapidly in the wake of the financial crisis. Only four-five percent several months ago, business loan rates currently stand at six-seven percent even for better businesses, when they can get them. End Comment.
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